2011 REGULAR SESSION
ACTUARIAL NOTE SB 12

Senate Bill 12 HLS 11RS-131 **Original** **Author: Senator Butch Gautreaux** **Date: May 13, 2011** **LLA Note SB 12.01** **Organizations Affected:** **All Louisiana State and Statewide Retirement Systems** **OR NO IMPACT APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.** **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

<u>Bill Header:</u> RETIREMENT BENEFITS. Provides relative to eligibility and benefit calculation for state and statewide retirement systems. (7/1/11)

<u>Cost Summary:</u>

Actuarial Cost/(Savings) to Retirement Systems and OGB	See Actuarial Note Below
Total Five Year Fiscal Cost	
Expenditures	See Actuarial Note Below
Revenues	See Actuarial Note Below

<u>Estimated Actuarial Impact:</u>

The chart below shows the estimated increase/(decrease) in the actuarial value of benefits, if any, attributable to the proposed legislation. Note: it includes the present value cost of fiscal costs associated with benefit changes. It does **<u>not</u>** include present value costs associated with administration or other fiscal concerns.

<u>Actuarial Cost (Savings) to:</u>	**<u>Increase (Decrease) in The Actuarial Present Value</u>**
All Louisiana Public Retirement Systems	See Actuarial Note Below
Other Post Retirement Benefits	See Actuarial Note Below
Total	See Actuarial Note Below

<u>Estimated Fiscal Impact:</u>

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits.

EXPENDITURES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 Year Total**
State General Fund	$ 0	See Below	See Below	See Below	See Below	See Below
Agy Self Generated	0	See Below	See Below	See Below	See Below	See Below
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	See Below	See Below	See Below	See Below	See Below
Annual Total	$ 0	See Below	See Below	See Below	See Below	See Below

REVENUES	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	See Below	See Below	See Below	See Below	See Below
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	See Below	See Below	See Below	See Below	See Below

<u>Bill Information:</u>

Current Law

Four state and nine statewide retirement systems have been created and are maintained under current law. These systems provide pension benefit, death benefits, disability benefits, and termination of employment benefits. Benefits available to members vary substantially from retirement system to retirement system. The state and statewide retirement systems are identified below:

State Retirement Systems

1. Louisiana State Employees' Retirement System (LASERS)
2. Teachers' Retirement System of Louisiana (TRSL)
3. State Police Pension and Retirement System (STPOL)
4. Louisiana School Employees' Retirement System (LSERS)

Statewide Retirement Systems

1. Louisiana Assessors' Retirement Fund (ASSR)
2. Clerks of Courts Retirement and Relief Fund (CCRS)
3. District Attorneys' Retirement System (DARS)
4. Firefighters' Retirement System (FRS)
5. Municipal Employees' Retirement System (MERS)
6. Municipal Police Employees' Retirement System (MPERS)
7. Parochial Employees' Retirement System (PERS)
8. Registrars of Voters Employees' Retirement System (RVRS)
9. Sheriffs' Pension and Relief Fund (SPRF)

Each of these retirement systems contain one or more benefit structures that apply to a uniquely identified sub-group of its members.

Proposed Law

SB 12 creates a new benefit structure for regular rank and file non-hazardous duty personnel, called Tier 2, which will be included in all 13 state and statewide retirement systems. The bill also creates a new Tier 2 benefit structure for all retirement systems with members employed in hazardous duty positions. Benefit provisions for regular Tier 2 and Hazardous Duty Tier 2 are summarized below.

Benefit Provision	**Non Hazardous Duty Tier 2**	**Hazardous Duty Tier 2**
Average Compensation	Average of compensation over 60 months with a 15% anti-spiking rule.	Average of compensation over 60 months with a 15% anti-spiking rule.
Employee Contributions	Rate applicable to Tier 1 members + 0.5%	Rate applicable to Tier 1 members + 1.0%
Eligibility for Unreduced Retirement	5 or more years of service at age 65	• In Service Retirement: 12 or more years of service and at least age 57 • Not in Service Retirement: 12 or more years of service and at least age 62 • Age 65 Retirement: 5 years to 12 years of service at age 65
Eligibility for Reduced Early Retirement	• 25 or more years of service at any age • Actuarial reduction from age 65	• 20 or more years of service at any age • Actuarial reduction from age 62
Benefit Accrual Rate	2.5% per year of service	3.0% per year of service
DROP	DROP participation is not permitted	DROP participation is not permitted
Benefit upon Termination of Employment	• With 0 to 4 years – employee contributions are returned without interest • With 4 to 5 years – employee contributions are returned with interest at 4.0% per year. • With 5 or more years of service – a deferred pension payable at normal retirement age.	• With 0 to 4 years – employee contributions are returned without interest • With 4 to 5 years – employee contributions are returned with interest at 4.0% per year. • With 5 or more years of service – a deferred pension payable at normal retirement age.
Disability Benefit	Eligibility: Same as Tier 1 Benefit: 2.5% x service x average compensation	Eligibility: Same as Tier 1 Benefit: 2.5% x service x average compensation

Other Rules Pertaining to Tier 2

1. An employing agency may elect to change its participation in a retirement system from Tier 1 to Tier 2.

    a. A Tier change must occur on July 1 for all retirement systems except ASSR (October 1) and PERS (January 1).

    b. To change participation Tiers, an employing agency must notify its employees and the retirement system six months or more before the change will occur.

    c. Participation in Tier 2 shall apply to all employees of an employing agency for benefits accrued on or after the date of change.

2. Guaranteed Benefit Rules

    a. All benefits accrued by an employee under Tier 1 as of the date his agency changes from Tier 1 participation to Tier 2 will be preserved.

    b. All benefit rights and features earned while accruing benefits under Tier 1 will also be preserved relative to benefits accrued under Tier 1.

    c. DROP rights and features will not be preserved. No member participating in Tier 2 will be allowed to participate in DROP for either Tier 1 or Tier 2 benefit accruals.

3. Unfunded Accrued Liabilities

    a. An agency terminating its participation in Tier 1 shall pay its proportionate share of the system's Tier 1 unfunded accrued liability (UAL) calculated as of the valuation date immediately prior to the employing agency's election to transfer to Tier 2.

    b. The employing agency's proportionate share of the unfunded accrued liability shall be paid in the following manner at the option of the agency:

        1) As a lump sum.

        2) As amortized over ten years with level payments.

        3) As amortized in accordance with the Tier 1 schedule in effect on the agency's election date.

4. Employer Contribution Rates

    a. Employer contribution rates applicable to agencies electing Tier 2 will be the same as rates applicable to agencies not electing Tier 2 because SB 12 does not affect R.S. 11:102 and 103.

    b. However, an agency electing Tier 2 will be required to contribute toward its proportionate share of the UAL determined on the election date in addition to the employer contribution rate that applies to all other employing agencies.

Implications of the Proposed Changes

SB 12 allows an employing agency to elect a reduced benefit structure for all of its employees relative to future benefit accruals. Savings, resulting from agencies electing Tier 2 benefits, will be spread among all employers participating in the retirement system. An agency electing Tier 2 must pay for its proportionate share of the system's unfunded accrued liability.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

There are no actuarial costs or savings associated with SB 12 for the following reasons:

1. The bill permits an agency to elect Tier 2 for its employees; it does not mandate Tier 2 for any employing agency.

2. Although SB 12 has the potential to significantly reduce actuarial costs for state and statewide retirement systems, it is unlikely that any agency will elect to participate in Tier 2. The basis for this conclusion is summarized below:

    a. There is no incentive for an agency to elect Tier 2 for its employees. Employees of an electing agency will earn smaller pensions, but the agency's contribution rate will be the same as for all other employers because there will not be a separate valuation for Tier 2. An electing agency will reduce the cost of benefits promised by the retirement system to its employees, but the cost savings will be used to reduce the contribution rate for all employers participating in the system whether participating in Tier 2 or not.

b. An agency electing Tier 2 will be responsible for its proportionate share of the system's unfunded accrued liability attributable to its own employees. It will also be required to share in the cost of funding the UAL for employees of all other employers participating in the system whether those employers are participating in Tier 2 or not.

Other Post Retirement Benefits

There are no actuarial costs or savings associated with SB 12 for the reasons given above.

Analysis of Fiscal Costs

There are no actuarial costs or savings associated with SB 12 because it does not require any employing agency to elect the Tier 2 benefit structure for its employees. However, if an employer does elect Tier 2, fiscal costs will be affected as follows:

Expenditures:

1. Expenditures from state General Funds will decrease if the electing employer is a participant in one of the state retirement systems because employer contribution requirements will decrease for all employers whether participating in Tier 2 or not.

2. Expenditures from the retirement system in which the electing employer participates (Agy Self Generated) will decrease because benefit accruals will be smaller and a member who retires during the measurement period will receive a smaller benefit than he would have received had SB 12 not been enacted.

3. Expenditures from Local Funds will decrease if the electing employer is a participant in one of the statewide retirement systems because employer contribution requirements will decrease for all employers whether participating in Tier 2 or not.

Revenues:

- Revenues of the retirement system in which an electing employer participates will decrease as employer contribution requirements to that system decrease due to the reduction of benefits. Revenues will increase to the extent that employer contributions to the system will be larger. The net effect, however, will be a net decrease in revenue.

The retirement systems report that administrative expenses associated with implementing SB 12 would be substantial. We estimated that implementation costs for all 13 systems in the aggregate will range from $100,000 to $500,000.

Actuarial Credentials:

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member of the Society of Actuaries and has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Dual Referral:

Senate	House
[x] 13.5.1 ≥ $100,000 Annual Fiscal Cost	[x] 6.8(F)(1) ≥ $500,000 Annual Fiscal Cost
[ ] 13.5.2 ≥ $500,000 Annual Tax or Fee Change	[x] 6.8(F)(2) ≥ $100,000 Annual SGF Fiscal Cost
	[ ] 6.8(G) ≥ $500,000 Annual Tax or Fee Change